

AR25



**GALT MALLEABLE IRON
LIMITED**

Annual Report 1974

GALT MALLEABLE IRON LIMITED and subsidiary companies**OFFICERS and DIRECTORS - 1974****OFFICERS**

DAVID L. CHANDLER, Chairman of the Board
HUGH C. MACKAY, *Vice-Chairman - Emeritus*
DOUGLAS R. McKAY, President and Chief Executive Officer
FRANK W. SIMPSON, Secretary-Treasurer
CHARLES A. THOMPSON, Vice-President, Corporate Development
J. DOUGLAS MAJOR, Vice-President - Group Executive, Casting Divisions

DIRECTORS

DAVID L. CHANDLER, Executive
c/o Garvey, Ferriss
Toronto, Ontario

HAROLD J. MURPHY, Q.C.
Garvey, Ferriss
Toronto, Ontario

DOUGLAS R. McKAY, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

FRANK W. SIMPSON, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

ROBERT W. NAVARRE, President
Simpson Industries Inc.
Litchfield, Michigan

JAMES W. HALLOCK, Director, Casting Sales
U.S. Sales Office
Albion, Michigan

BANKERS

THE ROYAL BANK OF CANADA
Cambridge, Ontario

AUDITORS

THORNE RIDDELL & CO.
Cambridge, Ontario

SOLICITORS

GARVEY, FERRISS
Toronto, Ontario

TRANSFER AGENTS AND REGISTRARS

GUARANTY TRUST COMPANY of CANADA
Toronto, Ontario

ANNUAL AND GENERAL MEETING

The Annual and General Meeting of Shareholders of Galt Malleable Iron Limited will be held at 9:30 o'clock in the forenoon, Toronto Time, in the British Columbia Room, The Royal York Hotel, on Wednesday, April 16, 1975.

Five Year Financial Review

Statement of Income

	1974	1973	1972	1971	1970
Sales	\$13,627,334	\$11,227,003	\$9,928,126	\$8,360,270	\$7,389,728
Cost of sales	11,422,916	9,244,465	8,071,737	6,716,742	6,322,289
Gross profit	2,204,418	1,982,538	1,856,389	1,643,528	1,067,439
Sales, financial and administrative expenses	1,465,822	1,149,998	1,020,694	860,542	831,744
Income before undernoted items	738,596	832,540	835,695	782,986	235,695
Income taxes	333,137	370,849	437,294	410,085	414,666
	405,459	461,691	398,401	372,901	94,029
Equity in earnings of effectively controlled company before extraordinary item	106,243				
	511,702	461,691	398,401	372,901	94,029
Dividends on preference shares paid to minority shareholders of subsidiary company			3,000	12,000	12,000
Income before extraordinary items	511,702	461,691	395,401	360,901	82,029
Extraordinary items	384,473				
Net Income for the year	\$ 896,175	\$ 461,691	\$ 395,401	\$ 360,901	\$ 82,029

Financial and other Information

Working capital	\$ 1,300,814	\$ 772,739	\$1,007,983	\$1,060,633	\$ 712,095
Working capital ratio	1.73:1	1.39:1	1.87:1	1.88:1	1.61:1
Long-term debt	\$ 2,377,760	\$ 2,248,076	\$2,965,265	\$3,502,697	\$3,700,410
Number of common shares outstanding*	652,500	652,500	652,500	652,500	652,500
Common shareholders' equity	\$ 4,242,195	\$ 3,426,868	\$3,122,448	\$2,845,885	\$2,586,454
Equity per common share	\$ 6.50	\$ 5.25	\$ 4.79	\$ 4.36	\$ 3.96
Cash flow per common share	\$ 1.54	\$ 1.55	\$ 1.45	\$ 1.33	\$.33
Earnings per common share*	\$ 1.37	\$.70	\$.60	\$.55	\$.12
Common share return on common equity	21.1%	13.3%	12.5%	12.6%	3.0%

*Including extraordinary items. The figures for 1970 have been adjusted to reflect the subdivision of common shares effected in 1971.

Report to Shareholders

On behalf of the Board of Directors, we are pleased to submit this Annual Report for the year ended December 31, 1974.

Consolidated sales for the year totalled \$13,627,334, up 21% over the previous year's \$11,227,003. Consolidated net earnings for the period under review, before extraordinary items, were \$511,702, or 78¢ per share, up 11% over the 1973 level of \$461,691, or 70¢ per share.

It is to be noted that included in the Company's earnings of \$511,702 is the sum of \$106,243 which is the Company's equity in earnings of Bartaco Industries Limited, a corporation effectively controlled by your Company.

Also included in the Company's consolidated earnings are extraordinary items of \$384,473 which increased the Company's total earnings for 1974 to \$896,175, or \$1.37 per share. This gain resulted largely from the sale by your Company of its minority interest in R. J. Simpson Manufacturing Company (Canada) Limited.

If we were to exclude the Company's equity in earnings of Bartaco Industries Limited and the extraordinary items, the Company's operations would

then reflect a slight decline during the year. This decline was due to the heavy burden on management occasioned by the acquisition of Bartaco Industries Limited, as well as difficulties arising from the production facilities at the Brantford Foundry.

Your directors are pleased to report that substantially all of the reorganization programs at Bartaco Industries have been finalized and that the problems experienced at the Brantford Foundry have been resolved.

Realizing fully the needs of efficiency, your Company has in its continuing plan to grow and make effective use of its facilities invested \$462,135 in new capital assets primarily at our Brantford Foundry. These capital changes have contributed in creating at Brantford one of the most modern foundries in North America.

Your directors are hopeful that the changes implemented by management will continue to benefit the shareholders of the Company and you can be assured that we will be on the alert for opportunities to improve operational efficiency.

The Hardware Division of your Company has continued its steady growth and in fiscal year 1974 recorded increased sales and earnings.

Many dividend paying companies have reorganized their share capital since the introduction of the new income tax laws in order that shareholders could receive either taxable dividends or tax-free dividends. Your directors feel that this option should be available to the shareholders of the Company. Accordingly, you are being asked to approve the necessary corporate amendments to give shareholders this option at the forthcoming annual and general meeting.

In 1974, your Directors appointed Mr. Mel J. Element, to the position of Vice-President of Bartaco Industries Limited, a corporation effectively controlled by your Company. Mr Element was formerly General Manager of the Company's Hardware Division. Mr. J. Douglas Major was appointed Vice-President and Group Executive of all casting divisions of the Company. Prior to his appointment Mr. Major was employed with a major automotive company.

It is with regret that your Directors must report that Mr. Hugh C. Mackay resigned from your Board for health reasons in 1974. In recognition of Mr. Mackay's service and contribution to your Company, your Directors have appointed him Vice-Chairman, Emeritus.

Your directors wish to thank the employees for their dedicated service and the shareholders for their confidence and the interest shown by them.

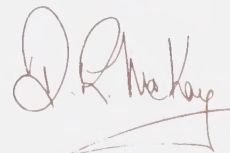
The annual and general meeting of shareholders will be held in the British Columbia Room of the Royal York Hotel, Toronto, on Wednesday, April 16, 1975 at 9:30 a.m., Toronto Time. Notice of this meeting together with the Information Circular and Proxy Form is enclosed with this report.

On behalf of the Board of Directors

D. L.Chandler
Chairman



D. R. McKay
President



Cambridge, Ontario
March 10, 1975

Assets

	1974	1973
CURRENT ASSETS		
Cash	\$ 118,103	
Marketable securities, at cost (quoted market value 1974, \$3,025; 1973, \$2,150)	2,084	\$ 2,084
Accounts receivable	1,651,818	1,283,033
Income taxes recoverable		172,796
Inventories (note 2)	1,305,826	1,266,068
Prepaid expenses	16,676	21,362
	<u>3,094,507</u>	<u>2,745,343</u>
INVESTMENTS		
Non-consolidated subsidiaries (note 3)	9,705	
Effectively controlled company (note 4)	807,260	
Other investments		257,500
	<u>816,965</u>	<u>257,500</u>
LIFE INSURANCE, cash surrender value	27,927	23,527
FIXED ASSETS (note 5)		
Land	95,079	95,079
Buildings	2,171,274	2,128,827
Machinery and equipment	6,010,697	5,624,876
Railway siding	3,951	3,951
	<u>8,281,001</u>	<u>7,852,733</u>
Less accumulated depreciation	2,939,617	2,565,981
	<u>5,341,384</u>	<u>5,286,752</u>
DEFERRED CHARGES, less amortization	47,287	32,419
	<u>\$9,328,070</u>	<u>\$8,345,541</u>

Approved by the board

D. R. McKay, DirectorF. W. Simpson, Director

Balance Sheet

31, 1974

Liabilities

	1974	1973
CURRENT LIABILITIES		
Bank advances (note 6)	\$ 210,000	\$ 290,905
Accounts payable and accrued liabilities	1,087,409	893,891
Taxes payable	127,620	72,258
Principal due within one year on long-term debt	368,665	715,550
	<u>1,793,694</u>	<u>1,972,604</u>
LONG-TERM DEBT (note 7)	2,377,760	2,248,076
DEFERRED INCOME TAXES	<u>853,721</u>	<u>636,793</u>

Shareholders' Equity

CAPITAL STOCK

Authorized

2,828 6% Cumulative sinking fund first preference shares, par value \$100,
redeemable at up to \$105 per share (after giving effect to the purchase
for cancellation of 5 shares in 1974)

779 6¼% Cumulative participating second preference shares, par value \$100,
redeemable at up to \$105 per share

2,000,000 Common shares without par value

Issued

328 First preference shares (333 shares in 1973)	32,800	33,300
279 Second preference shares.	27,900	27,900
652,500 Common shares.	<u>632,702</u>	<u>632,702</u>
	693,402	693,902
CONTRIBUTED SURPLUS	131,865	131,740
RETAINED EARNINGS.	<u>3,477,628</u>	<u>2,662,426</u>
	<u>4,302,895</u>	<u>3,488,068</u>

	<u>\$9,328,070</u>	<u>\$8,345,541</u>
--	--------------------	--------------------

UNFUNDED PENSION BENEFITS (note 8)

Consolidated Statement of Income

YEAR ENDED DECEMBER 31, 1974

	1974	1973
Sales	\$13,627,334	\$11,227,003
Cost of goods sold	11,422,916	9,244,465
Gross profit	2,204,418	1,982,538
Selling, financial and administrative expenses (including interest on long-term debt: 1974, \$243,136; 1973, \$232,764)	1,465,822	1,149,998
Income before undernoted items	738,596	832,540
Income taxes		
Current	116,209	189,713
Deferred	216,928	181,136
	333,137	370,849
	405,459	461,691
Equity in earnings of effectively controlled company before extraordinary item	106,243	
Income before extraordinary items	511,702	461,691
Extraordinary items		
Gain on sale of investments	307,538	
Income tax reduction realized on carry forward of prior years' income tax losses of effectively controlled company	76,935	
	384,473	
NET INCOME FOR THE YEAR	\$ 896,175	\$ 461,691
EARNINGS PER SHARE, after deducting dividends on preference shares		
Before extraordinary items	\$.78	\$.70
After extraordinary items	\$1.37	\$.70

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1974

	1974	1973
Balance at beginning of year	\$ 2,662,426	\$ 2,358,006
Net income for the year	896,175	461,691
	3,558,601	2,819,697
Dividends on		
First preference shares	1,976	1,998
Second preference shares	2,232	1,744
Common shares	65,250	130,500
Tax paid on undistributed income	11,515	23,029
	80,973	157,271
BALANCE AT END OF YEAR	\$ 3,477,628	\$ 2,662,426

Consolidated Statement of Contributed Surplus

YEAR ENDED DECEMBER 31, 1974

	1974	1973
Balance at beginning of year	\$ 131,740	\$ 131,740
Discount on preference shares purchased for cancellation	125	
BALANCE AT END OF YEAR	<u>\$ 131,865</u>	<u>\$ 131,740</u>

Consolidated Statement of Source and Application of Funds

YEAR ENDED DECEMBER 31, 1974

	1974	1973
SOURCE OF FUNDS		
Operations		
Income before extraordinary items	\$ 511,702	\$ 461,691
Items not involving current funds		
Depreciation and amortization	394,574	368,004
Deferred income taxes	216,928	181,136
Discount on bonds purchased for cancellation	(11,095)	(1,573)
Equity in earnings of effectively controlled company before extraordinary item	(106,243)	
	<u>1,005,866</u>	<u>1,009,258</u>
Proceeds from long-term bank loan	600,000	
Proceeds from sale of investments	565,038	
Sale of fixed assets	16,981	5,473
Reduction of sinking fund cash		13,545
	<u>2,187,885</u>	<u>1,028,276</u>
APPLICATION OF FUNDS		
Purchase of shares in effectively controlled company	624,082	
Acquisition of shares in non-consolidated subsidiaries	9,705	
Additions to fixed assets	462,135	325,310
Deferred charges	18,920	
Long-term debt paid or included in current liabilities	391,316	680,734
Purchase and redemption of sinking fund bonds	67,905	48,427
Dividends	69,458	134,242
Tax paid on undistributed income	11,515	23,029
Increase in life insurance, cash surrender value	4,400	4,278
Reclassification of marketable securities		47,500
Purchase of preference shares	375	
	<u>1,659,811</u>	<u>1,263,520</u>
INCREASE (DECREASE) IN WORKING CAPITAL	528,074	(235,244)
WORKING CAPITAL AT BEGINNING OF YEAR	772,739	1,007,983
WORKING CAPITAL AT END OF YEAR	<u>\$1,300,813</u>	<u>\$ 772,739</u>

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1974

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the wholly owned subsidiary companies G. M. I. Properties Limited and Galt-Brantford Malleable Limited, which subsidiaries amalgamated with the company on October 31, 1974, and the 80% owned subsidiary company, Molectrics Canada Inc. The accounts of the 51% owned companies, Spraymould Limited and Spraymould (Bahamas) Limited have not been consolidated (see note 3).

2. INVENTORIES

	1974	1973
Raw materials and supplies	\$ 656,483	\$ 417,498
Work in process	366,137	530,845
Finished goods manufactured	128,660	120,961
Finished goods purchased for resale	154,546	196,764
	<u>\$1,305,826</u>	<u>\$1,266,068</u>

Raw materials and supplies and finished goods purchased for resale are valued at lower of cost and replacement cost. Work in process and finished goods manufactured are valued at lower of cost and net realizable value.

3. INVESTMENT IN NON-CONSOLIDATED SUBSIDIARIES

Under an agreement dated December 18, 1973, Galt Malleable Iron Limited acquired on February 26, 1974, 51% of the issued shares of Spraymould Limited and Spraymould (Bahamas) Limited and as of January 2, 1974 took over full operational control of these companies. Galt is committed to contribute its management expertise to the operations of the companies and to advance or cause to be advanced sufficient funds to finance their operations.

Should Galt give up its operational control it would be required to relinquish its shares in the Spraymould companies. Accordingly the accounts of these controlled subsidiaries have not been consolidated in these financial statements and the investment is carried at cost.

Galt has guaranteed bank advances to Spraymould of \$156,300 at December 31, 1974, and while it retains operational control, is committed to the guarantee of further advances and interest thereon for the financing of Spraymould operations.

Spraymould is in the research and development stage of its corporate existence and all expenses net of government grants have been treated as deferred charges. The ultimate worth of the assets shown in the following summary of financial data is dependent on the successful development of the production process, suitable financing and subsequent sales or royalty agreements at adequate prices.

Spraymould Limited, summary of financial data:

	June 30, 1974 audited	December 31, 1974 unaudited
Current Assets	\$ 175,800	\$ 114,200
Fixed assets, net of depreciation . .	175,100	181,800
Deferred charges	1,806,000	1,841,600
	<u>\$2,156,900</u>	<u>\$2,137,600</u>
Current liabilities	\$ 193,000	\$ 240,700
Long-term debt	1,826,400	1,759,400
Capital stock	137,500	137,500
	<u>\$2,156,900</u>	<u>\$2,137,600</u>

Spraymould (Bahamas) Limited is currently inactive. Its assets and liabilities are not material.

4. INVESTMENT IN EFFECTIVELY CONTROLLED COMPANY

On May 31, 1974 Galt Malleable Iron Limited acquired a minority interest in Bartaco Industries Limited of Orillia, Ontario, a controlled subsidiary of Alco Standard Corporation of Valley Forge, Pennsylvania. Galt has effective control of Bartaco through a voting trust agreement, and under an agreement with Alco will, over a period of years, acquire majority control of Bartaco.

Galt accounts for its investment in Bartaco on the equity basis. The cost of Galt's 32.5% interest was \$624,082 and its equity in Bartaco's earnings from acquisition on May 31, 1974 to Bartaco's September 30, 1974 year end was:

Before extraordinary item	\$106,243
Income tax reduction realized on carry forward of prior years' losses	76,935
Net income for the period	<u>\$183,178</u>

Subsequent to December 31, 1974 Galt purchased an additional 67,000 shares under its agreement with Alco, at a cost of \$110,550.

5. FIXED ASSETS

Buildings, machinery and equipment are valued at appraised values at May 3, 1956, with subsequent additions at cost. Other fixed assets are at cost.

6. BANK ADVANCES

Bank advances are secured by pledge of book debts, inventories and shares in the effectively controlled company.

7. LONG-TERM DEBT

	1974	1973
5¼% First mortgage sinking fund bonds due July 1, 1976	\$ 130,500	\$ 153,000
Less sinking fund cash	25,671	7,670
	104,829	145,330
5½% General mortgage sinking fund bonds due July 1, 1981	157,000	213,500
First mortgage income bonds due January 15, 1974		
6¼%		400,000
6½%		13,000
7¼% Debenture due July 15, 1982	1,465,100	1,658,300
10% First mortgage bonds due June 15, 1982	469,496	533,496
Bank loan, repayable \$50,000 semi-annually due 1980	550,000	
	2,746,425	2,963,626
Less principal included in current liabilities	368,665	715,550
	<u>\$2,377,760</u>	<u>\$2,248,076</u>

These bonds and debentures are secured by the parent company's fixed assets and by floating charges on all its assets and undertakings. The bank loan is secured by pledge of shares in the effectively controlled company.

The company has agreed to certain regulations of the following activities:

- (a) Investments
- (b) Purchase and disposal of fixed assets
- (c) Issue of long-term debt
- (d) Issue and redemption of capital stock

Principal on long-term debt due within each of the next five years is as follows:

1975	\$368,665
1976	\$453,454
1977	\$387,434
1978	\$389,097
1979	\$390,851

8. UNFUNDED PENSION BENEFITS

The most recent independent actuarial report indicates that the single sum liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1974 is approximately \$146,750. It is the company's intention to fund this liability by annual instalments (including interest) of \$16,625 through 1988.

9. OTHER STATUTORY INFORMATION

	1974	1973
Direct remuneration of directors and senior officers (as defined by the Business Corporations Act)	\$ 139,968	\$ 158,454
Depreciation and Amortization	\$ 394,574	\$ 368,004

Auditors' Report

To the Shareholders of
Galt Malleable Iron Limited

We have examined the consolidated balance sheet of Galt Malleable Iron Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. For the company and its subsidiaries our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For the effectively controlled company accounted for by the equity method, we have relied on the report of the auditors who have examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cambridge, Canada
March 6, 1975




Thorne Riddell & Co.
Chartered Accountants






GALT MALLEABLE IRON LIMITED

HEAD OFFICE: P.O. BOX 396, CAMBRIDGE (GALT) ONTARIO, N1R 5V8

PRINCIPAL OPERATING PLANTS:

- Cambridge: ● Galt Malleable Iron Limited
Foundry Division 
60 Kerr Street.
- Galt Malleable Iron Limited
Hardware Division 
60 Kerr Street.
- Brantford: ● Galt Malleable Iron Limited
Brantford Foundry Division 
Power Line Road, Brantford Township

CONTROLLED SUBSIDIARIES

- Waterloo: ● Spraymould Limited 
420 Weber Street, North.
- Molectrics Canada Incorporated 
420 Weber Street, North.
- Orillia: ● Bartaco Industries Limited 
West Street, South.
- Otaco Limited - Foundry Division
- Otaco Limited - Factory Division
- Otaco Industries Limited - Transit Seating Division
- Rexdale: The Gas Machinery Company (Canada) Limited
- Pyronics Canada Limited
- Wayne Forge Limited
- Montreal: Otaco Limited - Electronics Division